

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Global Plus 1C Contracts (MC2012-6)
Negotiated Service Agreements

Docket No. CP2016-210

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE
NOTICE OF FILING A FUNCTIONALLY EQUIVALENT GLOBAL PLUS 1C
NEGOTIATED SERVICE AGREEMENT

(June 23, 2016)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to the Commission Notice¹ that established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of its entering into an additional Global Plus 1C Negotiated Service Agreement (Agreement).²

II. BACKGROUND

Customers for Global Plus 1C contracts include “Postal Qualified Wholesalers (PQWs) and other large businesses that offer mailing services to end users for shipping articles via International Priority Airmail, International Surface Air Lift, Priority Mail

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, June 16, 2016 (Commission Notice).

² Notice of the United States Postal Service of Filing a Functionally Equivalent Global Plus 1C Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, June 15, 2016 (Postal Service Notice).

Express International, Priority Mail International, and/or Commercial ePacket service.”
Postal Service Notice at 5.

Prices and classifications “not of general applicability” for Global Plus 1 contracts were previously established by Governors’ Decision No. 08-8.³ *Id.* at 1. In Order No. 85, the Commission authorized the addition of the Global Plus 1 product to the competitive product list and determined that the Global Plus 1 contracts filed in Docket Nos. CP2008-9 and CP2008-10 should be included within the product.⁴

The Commission designated the contracts filed in Docket Nos. CP2012-12 and CP2012-13 as the “baseline agreements for comparison of potentially functionally equivalent agreements under the Global Plus 1C grouping.”⁵ *Id.* at 2. The Global Plus 1C contract subject of the current docket relies on the pricing formula established in Governors’ Decision No. 11-6.⁶ *Id.* at 4.

The Postal Service seeks to add the Agreement to the Global Plus 1C product grouping on the competitive products list, asserting that it is functionally equivalent to the baseline agreements. *Id.* at 2-3. It further asserts that the Agreement is in

³ Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Global Plus Contracts, May 28, 2008 (Governors’ Decision No. 08-8). See Docket No. CP2008-8, Notice of United States Postal Service of Governors’ Decision Establishing Prices and Classifications for Global Plus Contracts, June 2, 2008.

⁴ Docket Nos. CP2008-8, CP2009 and CP2010, Order Concerning Global Plus Negotiated Service Agreements, June 27, 2008 at 8-11 (Order No. 85).

⁵ Docket Nos. MC2012-6, CP2012-12 and CP2012-13, Order Adding Global Plus 1C to the Competitive Product List and Approving Related Global Plus 1C Agreements, January 19, 2012 at 7-8 (Order No.1151).

⁶ Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors’ Decision No. 11-6). See Postal Service Notice, Attachment 3.

compliance with 39 U.S.C. § 3633 and therefore should be added to the Global Plus 1C product grouping. *Id.* at 3-4, 8.

The Postal Service intends the effective date of the contract to be July 1, 2016. *Id.* at 3. The contract is scheduled to expire one year after its effective date, subject to early termination provisions. *Id.* at 3-4 and *Id.*, Appendix 1, at 4-5.

III. COMMENTS

The Public Representative has reviewed the Postal Service Notice, the Agreement and supporting financial model filed under seal, as well as all other materials attached to the Postal Service Notice. The Public Representative has also reviewed the contracts subject of Dockets Nos. CP2012-12 and CP2012-13, and serving as the baseline agreements for Global Plus 1C contracts. Based upon that review, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreements. In addition, it appears that the negotiated prices in the Agreement should generate sufficient revenues to cover costs.

Functional Equivalency. The Postal Service asserts that the Agreement and the baseline contracts subject of Docket Nos. CP2012-12 and CP2012-13 “share similar cost and market characteristics” and possess very similar functional terms. *Id.* at 4. The Postal Service, however, does identify a number of differences between the Agreement and the baseline contracts, but does not consider them “to alter the contracts’ functional equivalency”. *Id.* at 5. Some of these differences are specific to the customer (*e.g.*, the customer’s name and address). *Id.* Other differences between the Agreement and the

Global Plus 1C baseline agreements include revisions to numerous existing articles, as well as addition and renumbering of some articles; revision to annexes. *Id.* at 5-7.

The Public Representative concludes that the Agreement exhibits similar cost and market characteristics to the baseline contracts. Therefore, the Public Representative agrees that the Agreement is functionally equivalent to the baseline agreements and should be added to the Global Plus 1C product grouping.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

As presented, the Postal Service's financial model does not directly address whether the addition of the Agreement to the Global Plus 1C product grouping will result in the product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2). However, the Postal Service's financial model indicates that the negotiated rates in the Agreement will generate sufficient revenue to cover its attributable costs. Therefore, the addition of the Agreement to the Global Plus 1C product grouping should not cause the product's cost coverage to fall below 100 percent - assuming the product currently covers its attributable costs.⁷ Under this assumption, the addition of the Agreement should allow the Global Plus 1C product to continue to comply with 39 U.S.C. § 3633(a)(2), and should not result in competitive products as a whole being subsidized

⁷ In the FY 2015 Annual Compliance Determination (ACD) Report, the Commission determined that the Global Plus 1C product covered the attributable costs. See Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 89.

by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Moreover, the Global Plus 1C product should improve the likelihood that competitive products as a whole contribute an appropriate share to the Postal Service's institutional costs, consistent with 39 U.S.C. § 3633(a)(3). The Commission will have an opportunity to review the contract's financial results in the future ACD Report for compliance with 39 U.S.C. § 3633(a).

IV. CONCLUSION

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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